

## Information Item

### *California Postsecondary Education Commission*

#### Higher Education Budget Update, 2004-05

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This staff report summarizes recent activities in the development of the 2004-05 State Budget, including the Governor's recent "May Revision" of the proposed budget, the newly-released Higher Education Compact with the California State University and the University of California, and Legislative budget subcommittee actions on the higher education components of the Budget Bill, AB 1800 (Oropeza). Staff will also provide a brief oral update on legislative budget deliberations.

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# Higher Education Budget Update, 2004-05

## Status of the 2004-05 State Budget

Both the Governor and the Legislature have continued work on developing the California State budget for the upcoming 2004-05 fiscal year, as well as making adjustments to the current 2003-04 fiscal year. The Legislature's budget subcommittees finished their deliberations on AB 1800 (Oropeza), the Budget Act of 2004, and on May 13<sup>th</sup>, the Governor released the May Revision to his January budget proposal.

The Governor's revised budget includes \$77.6 billion in State General Fund spending, an increase of \$1.5 billion over that proposed in January. Including more than \$20 billion in selected State Special Funds, the total proposed State budget for 2004-05 will be nearly \$98 billion. The Governor notes that several factors affecting the General Fund have changed since January, most prominent being increases in both projected revenues and expenditures.

Display 1 below summarizes the Governor's May Revision 2004-05 budget General Fund expenditures. The display shows that the revised proposed budget spends \$46 million less in State General Funds than in the current year.

*Display 1 General Fund Expenditures in Major Program Areas (Dollars in Millions)*

	<u>Estimated 2003-04</u>	<u>May Revision 2004-05</u>	<u>Difference</u>
Legislative, Judicial, and Executive	\$2,548	\$2,725	\$177
State and Consumer Services	471	508	37
Business, Transportation, and Housing	516	376	-140
Resources and Environmental Protection	1,058	1,043	-15
Health and Human Services	22,967	25,196	2,229
Youth and Adult Correctional	5,424	6,215	791
K-14 Education	31,673	37,274	5,601
Debt Service Savings (ERAF)	0	-1,136	-1,136
Higher Education	6,390	5,990	-400
Labor and Workforce Development	112	85	-27
Vehicle License Fee Backfill	2,672	0	-2,672
STRS Contribution	510	1,057	547
General Government	1,271	257	-1,014
<u>Use of Deficit Recovery Fund</u>	<u>2,012</u>	<u>-2,012</u>	<u>-4,024</u>
<b>Totals</b>	<b>\$77,624</b>	<b>\$77,578</b>	<b>-\$46</b>

Source: Governor's Budget May Revision 2004-05 Document, May 11, 2004.

Display 2 presents major changes proposed by the Governor for postsecondary education. The most significant changes are restorations of non-State funding for academic preparation programs at the State University and University of California and increases in the Cal Grant student financial aid program. The May Revise also proposes to increase enrollment funding and provides a cost-of-living adjustment to selected categorical programs for the community colleges.

***DISPLAY 2 Postsecondary Education 2004-05 Budget May Revision Highlights***

**University of California (UC)**

- ✓ \$20.2 million increase in the UC's General Fund over level proposed in the January 2004-05 Budget
- ✓ \$8 million augmentation associated with a recalculation of the revenues associated with assumed undergraduate and graduate student fee increases.
- ✓ \$4 million augmentation of non-State funds available for student outreach activities.

**California State University (CSU)**

- ✓ \$623,000 augmentation associated with a recalculation of the revenues associated with assumed undergraduate and student fee increases.

**California Community Colleges (CCC)**

- ✓ \$28.4 million as a one-time augmentation from Proposition 98 General Fund for the Scheduled Maintenance, Special Repairs.
- ✓ \$492.6 million, revenue-neutral fund switch (use Proposition 98 General Fund monies to offset reduction in local revenues, per a proposed agreement between the Governor and California's local governments)
- ✓ \$25.3 million augmentation of Proposition 98 General Fund for apportionments and selected categorical programs to increase in the COLA factor from 1.84 percent to 2.41 percent.
- ✓ \$20.2 million Proposition 98 General Fund for equalization of the per pupil credit instruction rate, raising total funding for this purpose to \$80 million in 2004-05.
- ✓ \$492,000 increase in Proposition 98 General Fund to reflect an increased estimate of Board of Governors fee waiver recipients.
- ✓ \$17.9 million increase in Proposition 98 General Funds, to reflect a reduced estimate of student fee revenues.

**California Student Aid Commission (CSAC)**

- ✓ \$42.6 million to cover an anticipated deficiency in the Cal Grant program, per revised estimates of the number of Cal Grant Entitlement awards that will be issued in 2003-04.
- ✓ \$31.9 million augmentation, per revised estimates of the number of Cal Grant Entitlement awards to be issued in 2004-05.
- ✓ \$134 million one-time redirection of surplus funds from the Commission's Student Loan Operating Fund to cover a portion of the costs associated with the Cal Grant program in 2004-05.
- ✓ \$34.2 million augmentation associated with the elimination of the January Budget proposal to decouple Cal Grant award amounts from student fee increases at UC and CSU.
- ✓ \$5.4 million reduction, per a reduction of 5,625 awards authorized in the Cal Grant Competitive Awards program.

**Higher  
Education  
Compact**

The Governor's May Revision reflects a 6-year Compact with the California State University and the University of California. The Compact provides increases in funding from 2005-06 to 2010-11, but also includes provisions that begin with the upcoming 2004-05 fiscal year. The State Legislature is deliberating the components of the compact as it constructs its budget for the upcoming year. The major components of the Compact

are summarized in Display 3 below, and the complete Compact document appears in Appendix A.

***DISPLAY 3 Governor's Higher Education Compact, 2004-05 through 2010-11***

- Annual increases in State General Fund support of 3 percent in 2005-06 and 2006-07, 4 percent in 2007-08, and to 5 percent in 2008-09 through 2010-11;
- 2.5 percent annual enrollment growth funding, (approximately 5,000 full-time equivalent students at UC and 8,000 FTES at CSU);
- Undergraduate Student fee increases of 14 percent in 2004-05, and no more than 8 percent in 2005-06 and 2006-07 (more if fiscal conditions dictate), with 33 – 20 percent of the fee revenues to be used for institutional financial aid.
- Partial restoration of academic preparation funding (\$12 million in UC and \$46 million in CSU) in 2004-05, using non-state resources, and;
- Annual statistical reporting of outcomes information in areas including: enrollments, persistence and graduation rates, time-to-degree, student-to-faculty ratio, new transfer students, and systemwide office administrative funding.

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**The May  
Revision for Other  
State Programs**

The May Revision proposes other changes in State financing for the upcoming 2004-05 fiscal year. Most of these changes are for relatively minor dollar amounts in the \$5 - \$25 million range in a \$97 billion budget. Some proposals are significant, such as a half-billion dollar increase in General Fund expenditures for the combined current and budget years in the Department of Mental Health and an anticipated \$858 million budget year reduction in employee compensation.

The Governor's 2004-05 budget revision also proposes changes in expenditures and activities in the form of Budget Bill Language affecting various parts of state government. For example, the proposed budget anticipates improvements in operating efficiencies in State government and awaits proposals based on the Governor's "California Performance Review" project that is examining the restructuring of state government.

The May Revision proposes to increase the Proposition 98 funding guarantee by \$542 million for the two-year 2003-04 / 2004-05 period over what was proposed in January for K-12 schools. This increase is \$2 billion lower than would otherwise occur under the complicated Proposition 98 calculation formulas.,

Display 4 below summarizes changes since January that have impacted State revenues and expenditures throughout the budget. Estimates of current year and adjusted prior year State revenues have increased by \$3 billion and another \$1.7 billion in expenditure savings has either been realized or is anticipated during the 2004-05 fiscal year. However, the chart shows that more than \$3.5 billion in additional spending and revenue declines have taken place since the January version of the budget.

***Display 4 Changes in State Finances Accounted for in the May Revise (Dollars in Millions)***

<b>Activity</b>	<b><u>Positive</u></b>	<b><u>Negative</u></b>
June 30, 2005, Reserve at Governor's Budget	\$635	
Revenue Increases—Current	1,211	
Revenue Increases—Prior Year Adjustments	1,945	
Reduction in Economic Recovery Bonds		–1,000
Medi-Cal Rate Increase Court Case		–947
Caseload and Estimate Increases		–691
Increased Proposition 98 Expenditures		–581
Major Restorations		–945
Current-year cost increases (excludes Medi-Cal provider rates)		–419
Anticipated renegotiated collective bargaining savings	464	
Use of Punitive Damage Fund to offset General Fund expenditures	450	
Alternative Savings in Health and Human Services	292	
Redirection of Education Fund Surplus	134	
School Districts Loan Refinancing	111	
Strategic Sourcing and Procurement Reform	96	
Asset Management and Surplus Property Reform Revenues	50	
Other Changes	193	

Source: Governor's Budget May Revision 2004–05 Document, May 11, 2004.

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**Legislative Action  
on the Budget**

The Assembly and Senate's budget subcommittees have been deliberating on the proposed 2004-05 State budget since late February. The education budget subcommittees finished their work on May 20<sup>th</sup> and are compiling information to transmit to the full budget committees in each House.

Below are summarized actions of the budget subcommittees as of May 21, 2004. (Actions listed for some issues are tentative understandings, based on the best preliminary information available.)

Both the Assembly and Senate education budget subcommittees significantly augmented the proposed 2004-05 higher education budget. Both subcommittees increased California State University and University of California enrollment growth by 3 percent, rejecting the Governor's proposal to redirect 10 percent of their respective incoming freshman to community colleges, and augmented the two systems' budgets to fund these enrollments. Both subcommittees also reduced the projected increases in graduate and professional school student fee levels by providing "backfill" funds necessary to lower fee increases. Funding for academic outreach programs was also restored.

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**What's Happens  
Next?**

The actions described above pertaining to the 2004-05 State Budget are preliminary. The Assembly and Senate budget subcommittee reports

must first be presented to the respective Houses' full budget committees and those reports (now part of each House's 2004 Budget bills) are then voted upon on the Assembly and Senate floors. The two Houses will appoint members of a Legislative Budget Conference Committee to resolve differences between the two versions of the budget and the final product of those negotiations will be voted upon by the full Senate and Assembly.

The version of the Budget Bill that is eventually approved is submitted to the Governor, who may veto selected items from it (line-item veto), prior to signing it into law.

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